

Executive Summary

The goal of U.S. reconstruction assistance to Iraq is to help the Iraqi government develop a democratic, stable, and prosperous country, at peace with itself and its neighbors, a partner in the war against terrorism, enjoying the benefits of a free society and a market economy. In support of this objective, Congress appropriated \$18.4 billion in Fiscal Year 2004 (Public Law 108-106) for the Iraq Relief and Reconstruction Fund (IRRF). Section 2207 of this law requires the Secretary of State to submit a quarterly report to Congress outlining the programs and initiatives supported by the appropriation. This report documents that these funds are being spent to create a foundation on which the Iraqi government and private sector can build a more secure and prosperous country.

During this July-September 2005 quarter, IRRF programs supported a wide range of programs and activities in each of the ten IRRF sectors. This report highlights three of particular importance: IRRF-financed programs to support Iraq's constitutional drafting process; IRRF support for institutional economic reforms; and IRRF support for essential services.

The Transitional National Assembly approved the draft of the Iraqi constitution on September 18. Many long hours, intense deliberation, and hard political bargaining went into the process of drafting this important document, which sets the stage for the December 15 elections for a permanent Iraqi government. IRRF resources are dedicated to democracy building and governance programs, including programs on democracy, human rights, the rule of law, equal opportunities for women and minorities. In the past quarter we worked with Iraqi groups to promote the constitutional process, conducting programs for Members of the Transitional National Assembly, political parties, civic organizations, independent media, minorities and women's groups. These programs will be especially important in the run up to the October constitutional referendum. If the constitution is ratified in the referendum, the formal transition process will end, and the new Council of Representatives will select the first government under the permanent constitution.

A critical element of Iraq's future success will be the government's ability to develop the fiscal discipline and managerial capacity to sustain investments that have been made thus far. During this quarter, IRRF-

financed programs helped Iraq meet the requirements to begin accession discussions with the World Trade Organization. IRRF programs also supported Iraqi government efforts to develop new policies in the areas of banking regulation, tax policy and subsidy reform.

Progress in the reconstruction and essential services effort has come against a backdrop of continued insurgent activity and continues to be a challenge. As of September 30, 314 civilian contractors of many nationalities, including Iraqis and Americans, have been killed while engaged in US-funded reconstruction projects. Former regime elements, anti-democratic rejectionists, and foreign extremist fighters have continued to attack IRRF projects and critical infrastructure like oil pipelines and electrical transmission lines. This has delayed the completion of a number of projects and increased security costs. Despite these challenges, today Iraq's infrastructure and service capacity are improved over pre-war levels in many sectors. Among the most notable IRRF achievements to date are:

- Water projects that have provided potable water to 1.25 million Iraqis who did not have access to it before.
- Sewage projects that have improved or added service for as many as 7 million Iraqis.
- Electricity projects have added over 1,600 megawatts to the capacity of the nation's electric grid. Improvements to the reliability of existing power generation have added the equivalent of a further 1,100 megawatts.
- Transport projects have added over 200 km of expressways and freeways. They have also built or repaired nearly 700 km of primary roads, more than 400 km of village roads, and 10 bridges.

Program Review: Targeted Projects, Iraqi Involvement and Local Participation

The management of IRRF has continued to be dynamic, adapting to changes on the ground and adjusting to what the Iraqi government has identified as its priorities. Ambassador Khalilzad initiated a comprehensive review of the IRRF program upon his arrival in August to determine how best

to target the remaining funds to get maximum benefit to achieve overall U.S. interests in Iraq.

The Mission focused particular attention on several key elements of our reconstruction effort. The first involved a re-examination of the emphasis on large infrastructure projects. As a result of the examination, the Mission decided to shift more contracts towards smaller local projects, which have lower operations and maintenance (O&M) costs. The Mission reinforced this policy direction by more closely integrating IRRF planning with the Commanders' Emergency Relief Program (CERP) funds to maximize rapid results in target communities in need of engagement.

There was also a continued recognition that IRRF projects relied too heavily on U.S. prime contractors with very expensive "cost plus" contracts. While this type of contract might have been justified early in the IRRF program, because of the need for rapid deployment, the Mission accelerated efforts already underway to shift to more cost-effective, fixed-price, contracts directly with local Iraqi firms. The Mission also shifted more funds into a pilot program to provide grants directly to capable Iraqi ministries that enabled ministry staff to manage projects directly, increasing Iraqi participation and lowering project costs. The effects of these reforms will become clearer next quarter.

Funds were made available for Provincial Reconstruction Development Committees (PRDCs) in 15 provinces to use on mutually agreed projects in their respective regions. PRDCs were set up during this quarter, and have begun operating. In PRDC meetings, representatives from the USG, Iraqi central ministries, the Provincial Council and other local leaders meet to discuss reconstruction priorities and decide how projects should be implemented within the province. This initiative has been successful in increasing the participation of local and provincial Iraqi officials in the planning and implementation of projects. It has also given Iraqis practical experience in democratic give and take at the local, provincial and national levels, as well as a better understanding of the financial costs of projects, and the need to select priorities.

Developing Useful Management and Informational Tools

With so many diverse IRRF projects underway, the Iraq Reconstruction Management Office (IRMO) management team wanted to ensure that it had

the necessary tools to track and oversee all this activity, and to refine its future planning so that IRRF funds could be programmed most effectively. As a result, IRMO, in conjunction with the Project & Contracting Office (PCO) and USAID, continued to develop thorough Cost-to-Complete estimates on the infrastructure projects that IRRF is currently funding. This will help us to better predict escalating cost or schedule slips, and ensure that we retain adequate funds to complete the projects that have started. It will also help ensure that we do not begin new projects for which costs are likely to exceed available funding. Finally, it will enable IRMO to more accurately estimate remaining available resources and make better informed decisions about whether to defer, downsize or start new projects. The aim of these efforts is to ensure the best use of every taxpayer dollar.

The Cost-to-Complete estimates will be reported for the period ending September 30, 2005, and thereafter on a quarterly basis, using an IRMO-designated and a format approved by PCO, USAID, and MNSTC-I called the Project Assessment Report (PAR). These estimates will provide Cost to Complete information on a project-by-project basis. The PAR will be sent to the Department of State later this fall, and it will reflect the status of projects as of September 30, 2005. This reporting process was the recommendation from an interagency assessment on IRRF execution and a SIGIR report and is the result of an agreement with the Special Inspector General for Iraq Reconstruction (SIGIR).

Following closely on the heels of the Cost-to-Complete estimates is another important tool that will enable better decision making on all projects and programs. IRMO is now working with PCO, USAID and Washington agencies to estimate systematically what it will take to sustain the many projects that the USG will be turning over to the Government of Iraq (GoI). This analysis is looking into what it will take in terms of Operation and Maintenance (O&M) budgets, and training and capacity development. The cost of sustainability needs to be a key factor in determining what projects IRRF should undertake.

As a result of work the past two quarters, IRMO is now completing estimates of the overall costs to sustain all USG-financed projects currently underway. The Mission is also developing estimates of how much the Iraqis will need to spend to sustain the existing infrastructure in key sectors, such as electricity.

IRMO has also established an Asset Recognition and Transfer (ART) program, which will compile a complete list of all assets funded by IRRF that we are transferring to the Iraqi Government. The ART program will enhance the Mission's ability to determine Iraq's needs to sustain these projects.

Another IRMO initiative to strengthen management oversight is to design a single USG Information Technology solution to the many disparate information systems of the implementing organizations from which IRMO receives its data. A number of agencies are authorized to implement IRRF projects through their own channels, and efforts to consolidate disparate data formats across the agencies have proved extremely difficult. Each agency manages contracts, projects, and financial information through different proprietary systems. While this will be very challenging, working with the PCO, the Multi-National Security Transitional Command – Iraq (MNSTC-I), USAID, and the State Department, IRMO is designing an improved database to capture all relevant data. When completed in coming quarters, this database is expected to have all the data needed to manage the U.S. reconstruction effort in Iraq. The Special Inspector General for Iraq Reconstruction (SIGIR) has recognized the benefit such a database would provide.

Solid Progress on International Donor Assistance

During the past quarter, Iraq developed substantial momentum in working with international donors. The Iraq Ministry of Planning and Development Coordination (MoPDC) published a National Development Strategy prior to the International Conference in Brussels in June and the International Donors Conference in Jordan in July. This Strategy establishes four strategic priorities for Iraq's reconstruction and development: 1) Strengthening the Foundations of Economic Growth, 2) Revitalizing the Private Sector, 3) Improving the Quality of Life, and 4) Strengthening Good Governance and Improving Security.

The National Development Strategy is an important sign to the international community that Iraq is serious about reconstruction and development planning, and paved the way for a successful meeting of the International Reconstruction Fund Facility for Iraq (IRFFI) at the Dead Sea in Jordan in July, where over 60 nations participated in a two-day gathering. Denmark became the newest member of the IRFFI Donors' Committee, and \$235 million of new commitments were made to the IRFFI. In addition, the

World Bank announced that it has agreed in principle on a \$500 million program of International Development Assistance (IDA) loans to Iraq, and the Islamic Development Bank agreed that it would make \$300 million in concessional financing available. The Iraqi Strategic Review Board has already approved projects identified by Iraqi ministries for the World Bank IDA loan funding.

The Iraqi government also established this summer a Baghdad Coordination Group among international donors. The Ministry of Planning has established Sector Working Groups, which have already facilitated a more active discussion of potential cooperation on specific projects among donors.

Infrastructure Security – A Continuing Concern

At the end of this quarter, insurgents markedly stepped up attacks on critical essential service infrastructure, targeting especially key electricity and oil linear infrastructure. Because of the fragile nature of the energy infrastructure due to years of neglect, poor maintenance and shoddy repairs, even a minor attack can have a large impact across the country.

The insurgents were able to knock out the national electricity grid twice since June 2005 by striking strategically located transmission infrastructure. Because there was little redundancy in the system, the country suffered reductions in power during the hot summer months when demand was high. Similarly, a combination of insurgent attacks and the dilapidated state of the pipelines cut off oil exports north to Turkey and reduced total exports.

It is difficult to protect all 12,000 miles of linear infrastructure, but positive steps are being taken to increase the security of the most critical energy corridors, including those on which Iraq depends for its oil export revenues. To augment Iraqi Army forces and the security services of the ministries of Oil and Electricity assigned to this task, the Mission is working with Iraq to train and equip Strategic Infrastructure Battalions (SIBs). The Iraqi government provided \$35 million for the first 4 battalions.

This important initiative is part of the Mission's redoubled efforts to work with the Iraqis to break the back of the insurgency. Increasing the number and capability of the Iraqi security forces and security institutions are keys to that effort. There is a recognition that security, democracy and economic growth in Iraq are inextricably linked; if one fails, they all fail.

Anti-Corruption Efforts

One of the most effective ways to help Iraq on its road to democracy is to reinforce and augment efforts to tackle endemic corruption. Developing open, transparent and accountable procedures in government is critical to encouraging trust and confidence from both the Iraqi public and the international community.

The interagency Anti-Corruption Working Group at the U.S. mission in Baghdad is working with Iraqis to develop specific recommendations for actions the USG can take to help Iraqis battle corruption. For example, dedicated Iraqis are working with the help of IRRF funding to set-up a financial management information system (FMIS) that will improve budget transparency and accountability of Iraqi government resources. Additionally, the U.S. advisors to the Commission on Public Integrity continue to foster efforts supporting good governance. The CPI has continued to pursue implementation of the Code of Honor and Financial Disclosure agreements within the government. Further, the CPI has expanded its investigator training in Baghdad to include Mosul branch office investigators. Also, increased attention is being focused on the Inspectors General at Iraqi Ministries to ensure that they are properly trained and have the support they need to ferret out corruption.

IRRF Reallocations During the Quarter

A total of \$63 million in program reallocations was notified to Congress during this quarter. Of that total, \$53 million was contained in a Congressional Notification (CN) that went to Congress on September 22nd. This quarterly report will be used as the CN for the remaining \$10 million.

The \$53 million reallocation will go to three program activities. First, \$35 million is for USAID's Office of Transition Initiatives (OTI) to increase short-term work opportunities for Iraqis in several key areas in the period leading up to the December elections. This \$35 million will come out of a USAID vocational training program. The remaining \$18 million will go into two activities: \$15 million to increase awareness regarding civil society, electoral and constitutional processes; and \$3 million to help increase participation by women in the political process. This remaining \$18 million will come out of a lower-priority electricity transmission project in the

governorate of Suleimaniyah. The \$10 million in this report will be reallocated from USAID's vocational training program to the Power & Maintenance Program within the Electricity Sector for the purchase of critical spare parts at three power plants, two in the Baghdad area and one in Kirkuk.

Looking Ahead

Iraq is entering one of the most challenging periods of its long history. Over 90% of eligible voters have registered to vote in the 15 October constitutional referendum, to be followed by elections in December.

In the period ahead, the focus of our reconstruction efforts will be on supporting the Iraqi government as it provides sustainable security and essential services. The US Government is working closely with the Iraqi government and with other international donors to help the Iraqis build the institutions and infrastructure they need to become a prosperous, democratic country. It will also be important for Iraq to sustain recent improvements to its infrastructure. The US has already committed and obligated significant IRRF resources, as part of our project costs, to help the Iraqi ministries with the sustainment and O&M of US-funded infrastructure.

As of September 28, 2005, \$14.5 billion or 79% of the total IRRF total of \$18.4 billion, has been obligated. \$8.6 billion has already been disbursed or 47% of the \$18.4 billion.

SECTOR HIGHLIGHTS

Security and Law Enforcement

Training and equipping security forces continued to be the top priority within this sector during the past quarter. Over 190,000 military and police personnel have received varying degrees of training and equipment. In order to increase the protection of strategic infrastructure, the Ministry of Defense (MoD) began training and equipping four Strategic Infrastructure Battalions, which will focus on protection of linear infrastructure such as electricity transmission towers and oil pipelines.

Both the MoD and the Ministry of Interior have made substantial progress in developing their security forces, yet both Ministries still have limited institutional capability to support fielded forces. For example,

contracts for basic life support operations such as waste removal, waste water disposal and basic maintenance have been allowed to expire with no provision for renewal. MNSTC-I is implementing a monthly readiness report for both Ministries to help the Iraqis improve performance in this regard.

Ministry of Defense Forces Summary

The MoD continues to generate combat units, but it is increasingly focused on developing combat enablers and logistics support units. These types of units are critical to the ultimate success and independence of Iraqi military forces because they tie the national capabilities of the Iraqi government into material support for units conducting operations.

The formation of additional heavy forces for the Iraqi Army has continued, though. Two tank Battalions of the Iraqi Army 2nd Brigade and the Brigade Headquarters began formation in September, and the battalions are awaiting arrival of T-72 tanks that have been donated by Hungary.

The Iraqi Armed Forces are conducting ever-increasing numbers of combined operations with Coalition Forces, and more successful operations on their own. Almost 90 combat battalions of the Iraqi Army are conducting aggressive Counter-Insurgency operations. Many of those operations are capable of taking the lead and conducting independent operations requiring only logistical support provided by the Coalition.

With the increased emphasis on Infrastructure Security, a program was approved and is being implemented to train and equip four Security Infrastructure Battalions (SIBs), whose mission will be to protect Iraq's critical linear energy infrastructure. They will initially focus on oil pipelines, but electricity transmission lines and nodes will be added to their missions as the SIBs become more robust. MNSTC-I has used IRRF funds to provide mission-essential equipment to the SIBs, such as uniforms, weapons, and body armor.

Ministry of Interior

More than 8,900 recruits completed the basic Academy program and 516 recruits graduated from the three-week Transition Integration Program (TIP) in the last quarter. That pushes the number of recruits trained in basic Academy programs to over 44,000 and more than 36,000 for the TIP.

Protecting Iraq's borders, particularly with Syria, continues to be a priority. About 900 troops were added to the Department of Border Enforcement (DBE). The total trained and equipped strength of the DBE is now over 17,000, with over 150 border forts having been built or renovated, with a priority given to border forts on the Syrian border.

The Public Order Division within MoI recently fielded its 4th Public Order Brigade. At the same time, the Public Order Battalions within the Brigades were increased in size from a standard configuration of 450 to a new 750-person configuration. This was done to maintain a force capable of conducting operations on a full-time basis over an extended period. The Public Order Brigades are currently training and equipping the additional personnel needed to bring all four Brigades (12 Battalions) to this newly-authorized strength. Over 1,160 policemen completed the fifth training iteration of the Public Order course that ending in August, and these policemen will be part expansion of the force of the four Public Order Brigades.

Distribution of the Iraqi Police Service (IPS) identification card is underway. Production of this card began in March; over 74,500 cards have been produced to date. Another 20,000 are in the production/shipping stage. The MoI Qualifying Committee vets individuals applying for a position, and the card indicates that the individual has been screened and checked against existing Iraqi criminal databases. Use of the card should help install public confidence in the IPS as a legitimate force. Use of this card should enhance public confidence in the IPS.

Thirty Special Police Transition Teams (SPTTs) have deployed to assist Iraqi Special Police units. These teams focus on training and mentoring the Iraqi staff at the battalion, brigade, and division levels. They provide access to Coalition capabilities, and they also facilitate planning and coordination between Iraqi and Coalition units at the operational and tactical levels.

Justice, Public Safety Infrastructure and Civil Society

During this past quarter, there was intense focus on the drafting of the Iraqi constitution. The USG provided extensive assistance to members of the Transitional National Assembly, political parties, civic organizations,

independent media, minorities and women's groups through the provision of international experts, workshops, and seminars. A Constitutional Dialogue program reached over 93,000 Iraqis through 3,600 dialogue sessions. During the sessions, more than 73,000 participants filled out questionnaires about the process that were compiled and presented to the TNA Constitutional drafting committee.

During this quarter, polling operations throughout Iraq were increased, which allowed for a more accurate tracking of Iraqi national opinion on issues relevant to the constitutional drafting process. National Endowment for Democracy (NED), the International Republican Institute (IRI), and the National Democratic Institute (NDI) programs under IRRF promoted the development of political parties. During the quarter, programs dedicated to involve women in the political process were strengthened.

USAID's Office of Transition Initiatives continued to provide vital short-term employment and community stabilization activities across Iraq, specifically in Strategic Cities such as Falluja and Ramadi. USAID/OTI also supported civil society infrastructure development, and the promotion of civic education and citizen participation, with an emphasis on supporting activities for women and youth.

Within the Witness Protection Program, construction began at the four new witness security facilities in the Karkh Districts of Baghdad. Each facility costs about \$2.5 million. For the CPI headquarters, the initial purchase of basic investigative equipment was completed.

The Advanced First Responder Network (AFRN) moved forward toward completion this past quarter with good momentum. This national Public Safety communications and dispatch system will enable Iraqi police, civil defense, and emergency medical personnel to communicate effectively through radio, secure voice, and data communications. It will provide improved emergency services to 16 of Iraq's cities, which have been selected by their strategic importance. Almost 12,000 AFRN radios are being delivered to the MoI, and a team of individuals has been trained at MoI to manage the AFRN program. Also, a budget estimate for sustainment of the AFRN was prepared in junction with the MoI Department of Communications for inclusion in MoI's 2006 budget request.

Electricity

The Mission is pursuing a “build, train, handover” strategy of operations to ensure that Iraqi operators are properly training to maintain and operate the power generation, transmission, and distribution systems that IRRF projects are building or rehabilitating. Most of the USG reconstruction work contains training components for Ministry of Electricity personnel. Other capacity building initiatives involve critical operational needs, systems planning and development tools, and a significant control and protection project to assist in maintaining system stability and the ability to transmit power.

The Summer Electricity Plan that was developed through the coordinated efforts of USG agencies and the Ministry of Electricity laid out a goal of achieving an increase in power generation levels to produce at least 5,500 MW. While average summer demand was estimated at near 8,500 MW, achieving 5,500 MW would provide a consistent supply of power throughout the country. The Ministry of Electricity managed to reach 5,389 MW on July 14th, but numerous problems beset the system shortly after that, including renewed insurgent attacks, a lack of fuel supplies and poor O&M practices. These factors combined to reduce peak capacity to 4,500 MW in the latter half of the summer. Lower production was exacerbated by frequent and increasingly sophisticated insurgent attacks on the transmission lines, which occasionally reduced the national grid to unsafe low operating levels.

During the month of September, electricity generation units came off line for routine maintenance and repair prior to the heavy demand winter period. A Winter Electricity Plan has been prepared which places a high priority both on O&M and the necessary supply and correct usage of optimal fuel. Rising fuel shortages will continue to put strain on the system. Burning less than optimal fuels leads to lower output, higher O&M costs, and faster deterioration of plants. If the infrastructure security plan reduces the number of insurgent attacks on transmission lines, it should be possible to provide the target number of hours of electricity to consumers during the peak winter period.

New generating capacity was added to the system during the past quarter. There were two new generating units commissioned at the Baghdad South power plant, which added 216 MW to the nation’s grid. These units were added a month ahead of schedule. Also, a number of Iraqi technicians

completed six weeks of training on the four newly commissioned LM-6000 generation units at Qudas.

Oil

Crude oil production and exports remained essentially unchanged from the previous quarter. On average, about 2.2 million barrels per day (bpd) of oil is produced and approximately 1.5 million bpd is exported.

During the quarter, Iraq was intermittently able to export crude to Turkey via the northern pipeline, as access was limited by insurgent attacks. Gas-oil separation plant projects in the north added 200,000 bpd of crude oil capacity, giving Iraq sufficient volume to resume exports through Turkey, provided the pipelines are not interdicted.

Insurgent attacks on the southern and central pipeline systems have impeded the crude shipments to the oil refineries. Combined with power outages and operational problems, the country's refineries have struggled to keep up with the need for refined oil products, and during the latter part of September a rationing system for gasoline had to be instituted for Baghdad. Drivers could only purchase fuel on odd/even days based on their license plate numbers.

Construction work commenced on the \$66 million pipeline crossing of the Tigris River at Al Fathah, a critical junction in the oil flow. The majority of the heavy equipment was delivered to the site in August and work commenced on the River Trenching and Right of Way for the pipe crossing. The security perimeter for the project was expanded in cooperation with MNF-I to help protect the pipelines and the construction area.

Water Resources and Sanitation

During the past quarter the rate of spending and obligation extension has slowed primarily due to Mission re-evaluation of ongoing and planned projects, including Iraq's ability to sustain projects. Spending in this sector was adjusted to focus on maintaining ongoing project work without major reallocations of funds or new apportionments.

In some cases, the lack of adequate operations and maintenance support and institutional capacity of Iraqi Ministries has delayed bringing larger water

projects on line. There has, however, been substantial success with smaller projects that have been implemented rapidly and impacted significant numbers of people. Additional focus will be placed on smaller projects, which will provide benefits quickly and may require less funding demand for sustainability with the Iraqi Ministries. As an example, awards for 28 projects under the small water projects task order "Potable Water Rehabilitation PW 90" were made and 26 projects were completed. These completed projects benefited an estimated 500,000 Iraqis. In keeping with the desire to reduce the work given to Design Build (DB) contractors, work was stopped on several water plants due to cost issues, and the design-build contractor was terminated.

Transportation and Telecommunications

The airports continued to take significant steps towards International Civil Aviation Organization (ICAO) compliance this quarter, notably with the repair work that is being done at the Basrah Airport Terminal. Also, at the port of Umm Qasr, port operations have improved and port operations are occurring in a more timely manner due to security upgrades and the arrival of essential equipment. The Iraq railway system has continued with station rehabilitations. An influx of repair equipment has enabled greater rail system operation throughout the country. Most notably, there was a rail movement of equipment purchased for the Government of Iraq with IRRF funds from the port of arrival to Baghdad, resulting in substantial logistics cost savings to the USG; without the rail movement the equipment would have had to be transshipped via air or over land.

On the telecommunications front, the Wireless Broadband Network (WBBN) became operational during the past quarter; it is installed at 35 government sites. On July 28, 2005, the Internet Corporation for Assigned Names and Numbers (ICANN) Board of Directors held a special meeting and assigned the ".iq" domain name to Iraq. The name was delegated to Iraq's National Communications and Media Commission (NCMC). Although the domain name is not yet operational, this is a meaningful action for future operation and interaction with Internet communications.

Roads, Bridges and Construction

School building renovation and rehabilitation continued in earnest during this quarter as Iraq's school children returned to school during the

second week of September. A total of 123 schools renovation and rehabilitation projects were completed, while 95 renovations were started.

There was a lot of coordination this quarter with Provincial Reconstruction Development Committees (PRDCs) this past quarter as the PRDCs made determinations on which projects were approved for local areas. Initial project lists were received from the PRDCs.

The Ministry of Construction has continued to proceed with implementation of the \$72 million IRRF grant from the USG for construction of eight major road and bridge projects around Iraq. Pursuant to this grant, the Ministry advertises these projects for bid, accepts and reviews bids, awards contracts and supervises the work. The grant appears to be a good model for IRRF grants to other Ministries as a way to build ministerial capacity, hand off reconstruction to the Iraqi government, and secure lower construction costs. There have been some issues to work through with this grant program, notably the need to secure a line item in the Ministry budget's with the Ministry of Finance to account for advance payment to contractors.

Health

The strategic objectives in the health sector include strengthening primary care services, improving access to tertiary care services, and developing capacity in key areas. Progress continued this quarter in the construction of Primary Healthcare Centers (PHC's). After it became apparent that the Ministry of Health (MoH) would not be able to provide resources to support the purchase of generators, consumables, and transformers for electric hook-ups for these clinics, the Ministry agreed to reprogram its own funds to support these costs. USAID supported the Expanded Program on Immunization to conduct two rounds of National Polio Immunization Days to maintain Iraq's polio-free status in light of outbreaks in the region. Over 20,000 volunteers vaccinated 98% of the target population (4.7 million children). 450 volunteers contracted through the Iraqi Red Crescent Society carried out independent monitoring for both rounds.

Access to tertiary care services progressed as well. Renovations were completed for 2 hospitals (Kerbala Pediatric and Ba'quba General Hospital), and they are ongoing for an additional 18 hospitals. A list of equipment for the hospital renovations has been finalized and prepared for bid. Most of these renovations are being conducted in maternal and child health hospitals. The

award of design-build EHCs was put on hold because proposals were higher than anticipated. The acquisition strategy was changed to traditional design-bid-build to reduce risk associated with design-build contracting, with expectation that this will reduce bid prices, and therefore, cost of the project. Significant progress is being made in the distribution of much needed medical equipment throughout the republic. PCO verified Ministry of Health warehouse facilities as acceptable and moved 700 hospital beds and other equipment to Iraqi facilities in the north and the south.

There was strong emphasis placed on capacity development this quarter. Training has been implemented to support primary care services for the newly constructed Primary Healthcare Centers (PHCs). An IRRF contractor conducted four, six-day workshops for 48 physicians and 41 nurses from 16 governorates with follow on train-the-trainer workshops to orient trainers to the enhanced curricula for physicians and nurses in preparation for cascade training. They also completed competency-based training curricula for physicians and center directors, nurses and medical assistants and health center team building and problem solving. They also assisted the Ministry of Health to develop a cascade training plan that includes a monitoring and evaluation system to ensure the quality of training at all levels.

Private Sector Development

The Iraqi Ministry of Trade submitted its final Memorandum of Foreign Trade Regime to the World Trade Organization (WTO) on August 27. Iraq will begin negotiations when the Secretariat schedules the first meeting of the Working Party on Iraqi accession. The USG and the Ministry of Planning signed a Memorandum of Understanding establishing the Iraqi Investment Promotion Agency (IPA). The IPA commenced refurbishing its facilities and recruiting staff.

The USG is implementing a broad range of assistance programs to help Iraq move to a free trade, private sector, market based economy. Fundamental market reforms are essential to Iraq's economic growth, job creation, and equal opportunity. In turn, economic growth is essential to political stability.

IRMO and USAID are working together to implement numerous development and assistance programs. Highlights of the programs include: micro-finance, banks lending to small and medium sized enterprises, capital

market development, business skills development, investment promotion, business center support, and the establishment of economic zones. Specifically, IRMO has awarded a contract for the completion of a Best Practices Manual for Iraqi Business Centers, the strengthening of the Kirkuk Business Center, and the establishment of a new Baghdad Business Center to support the growth of the Iraqi private sector. IRMO and USAID continued to provide support for the adoption of laws and regulations for the Iraqi securities industry and capital markets, providing assistance for vital reforms such as privatization, banking sector reform, accession to the WTO, and multi-pronged programs for the agricultural sector that will bear countless benefits to the economy of Iraq.

Education, Refugees, Human Rights, Democracy, Governance and Civil Society

Refugee assistance efforts related to displaced persons were at the forefront of activity as this quarter came to a close. Due to the intense military actions in and around the city of Tal 'Afar in northwest Iraq, there were as many as 20,000 displaced civilians at the end of anti-insurgency operations. Due to good coordination between US military forces, IRMO, the US Embassy and the Iraqi government, a relief effort was planned before military operations ceased.

For the Iraqi government, the Ministry of Displacement and Migration (MoDM) was designated to be the lead ministry for the Humanitarian Assistance operations. Part of the reason that MoDM was given the assignment was due to the capacity building work that had been done with that Ministry by IRMO and Embassy staff. MoDM worked with other Iraqi Ministries, the US military and Non-Government Organizations (NGOs) to ensure that needed supplies of food, water and shelter were available to displaced individuals.

IRRF funds were used to facilitate a meeting in Irbil with MoDM officials, the Kurdistan Regional Government, and the United Nations High Commissioner for Refugees to discuss details of relocation of Iranian Kurds to the Kurdistan area. Also, several MoDM employees attended crisis management training in Washington, DC in July.

The State Department's Bureau of Democracy Rights and Labor (DRL) provided support to programs documenting past atrocities by the former

regime, including collecting and cataloging 1,200 testimonies of Marsh Arabs from Iraq's south. It also prepared the design and material for a human rights website.

In education, construction and renovation began on 72 of 84 model schools. These model schools will have computer and science laboratory space, and they will have teachers who will have received specialized training in computer usage. The ongoing work will not interfere with school classes, which began during the second week of September. USAID also refurbished the water and sanitation facilities in 359 schools, bringing the total completed to 380. By the end of this program, nearly 800 schools will have updated water and sanitation facilities.

Commander's Emergency Response Program (CERP)

The CERP Program enables Multi-National Corps-I commanders to respond to urgent humanitarian relief and reconstruction requirements within their area of operations (AO). It also promotes capacity building within governmental structures by working with the Provincial Reconstruction Development Committees (PRDCs). At the discretion of the military commanders, CERP can be used as the "bridge" between larger USAID, IRRF, donor nation and Iraqi funding.

CERP focused on execution of the remaining balance of FY 2005 FY 2005 funds. During Fiscal Year 2005, commanders spent \$718 million (\$368 million from the FY 2004 supplemental and \$350 million from the FY 2005 supplemental) in 7,099 projects. PRDCs, in a capacity-building role, accounted for \$80 million of that total in the eight provinces containing the nine strategic cities. Some examples of CERP usage in high kinetic activity cities follows.

- Najaf CERP program produced 227 projects worth \$6 million prior to the stand-up of the PRDC. Upon creation of the PRDC, an additional 43 projects worth \$10 million have been initiated and will continue to improve the quality of life for residents of Najaf.
- In Fallujah, 354 projects were completed for a total of \$14.7 million. Primary focus here was essential services, which includes \$1.3

million in distribution, or 'last mile' electrical projects bringing power into local resident's homes.

- In Baghdad (excluding Sadr City), 1,155 CERP projects were completed for \$98 million. The focus areas were water and sanitation projects for \$59 million.
- Sadr City's 97 CERP projects totaling \$8.8 million included \$2.7 million in compact water units, bringing potable water to local residents. By December 2005, 693,000 residents will have access to a reliable source of potable water as a result of this project.
- In Mosul, CERP has been a critical element in Counter Insurgency operations. Essential services accounted for a large portion of the 456 projects totaling \$55million.
- Water and sanitation, electricity, education, transportation, healthcare and law and governance in preparation for elections, remained primary CERP focus areas throughout Iraq in FY 2005